

VZCZCXRO1905
OO RUEHCHI RUEHDT RUEHHM RUEHNN
DE RUEHBK #6156/01 2790858
ZNY CCCCC ZZH
O 060858Z OCT 06
FM AMEMBASSY BANGKOK
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2169
INFO RUCNASE/ASEAN MEMBER COLLECTIVE IMMEDIATE
RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 3024
RUEHBY/AMEMBASSY CANBERRA IMMEDIATE 6123
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 8375
RUEHCHI/AMCONSUL CHIANG MAI IMMEDIATE 2498
RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 05 BANGKOK 006156

SIPDIS

SIPDIS

STATE FOR EAP/MLS AND EB
COMMERCE FOR EAP/MAC/OKSA
TREASURY FOR OASIA
STATE PASS TO USTR FOR WEISEL
STATE PASS TO FEDERAL RESERVE SAN FRANCISCO FOR DAN FINEMAN
STATE PASS FEDERAL RESERVE NEW YORK FOR MATT HILDEBRANDT

E.O. 12958: DECL: 10/06/2016
TAGS: [ECON](#) [PGOV](#) [PHUM](#) [PREL](#) [TH](#)
SUBJECT: NEW THAI ECONOMIC TEAM - HIGH ON PHILOSOPHY, LOW
ON GROWTH

REF: A. BANGKOK 6002

[1](#)B. BANGKOK 6080

[1](#)C. BANGKOK 5706

BANGKOK 00006156 001.2 OF 005

Classified By: CDA ALEX ARVIZU FOR REASONS 1.4 B AND D.

[1](#)1. (C) Summary: Thailand's new economic team, led by the highly respected Bank of Thailand Governor Pridyathorn Devakula, faces the challenge of maintaining steady economic growth, reassuring foreign investors, and ensuring that the previous regime's rural base continues to receive special economic attention, even while attacking Thaksin's "populist" and "corrupt" policies and practices. Pridyathorn's views on sound economic policy are shaped by his experience from the 1997 crisis as well as his conservative, royalist views (largely based on the teachings of Thailand's ruling monarch). Thailand is fortunate in having a sound fiscal and monetary base from which to build. While Thailand's economic policies are unlikely to take a radical turn away from trade and investment openness, there will be a reduced emphasis on growth and a heightened wariness toward "excessive" dependence on foreign capital. If Pridyathorn's interpretation of King Bhumipol's "sufficiency economy" is put into practice, Thailand will likely achieve only the modest expectations that are set, thereby under-performing its peer countries for years to come. End Summary.

The New/Old Team

[1](#)2. (U) While it is still very early days for the Surayud administration, the military-appointed PM's economic team is coming together. It will be led by Bank of Thailand (BoT) Governor Pridyathorn Devakula, who is expected to be named Finance Minister and Deputy Prime Minister overseeing the Commerce, Transport and Energy ministries. Bangkok Bank Executive Chairman, Kosit Panpiemras, is expected to be named either Agriculture or Industry Minister and Deputy Prime Minister responsible for the Industry, Science and Technology, Natural Resources and Social Development and Welfare ministries (reftel A provides biographic information

on various ministers-to-be). As reported in reftel B, Pridyathorn expects to be the overall economic tsar.

13. (C) Since Pridyathorn became BoT Governor in May 2001, the Bank of Thailand has come to be generally regarded as one of the most effective public institutions in the country; it is seen as being staffed by highly skilled technocrats immune from the corruption and nepotism that plague many other Thai government institutions. This is in marked contrast to the widespread criticism of the Bank following the 1997 financial crisis, which was caused in part by poor BoT supervision of the banking system and ineffective and badly timed interventions in currency markets. Pridyathorn's credibility as a principled and apolitical figure was significantly enhanced in 2005 when he arranged the removal of the President of state-owned Krung Thai Bank for overly aggressive (and poorly underwritten) lending; this despite then PM-Thaksin's public support for the banker and widespread belief that Krung Thai was acting at Thaksin's behest to stimulate the economy. The Governor's royal pedigree (he has a hereditary title more or less equivalent to Earl or Duke and his grandfather was a son of "The King and I" King Rama IV, who reigned 1851-68) also lends him an aura of respect in Thailand's hierarchical and monarch-revering society.

Economy on Auto-Pilot

14. (C) The economic situation Pridyathorn faces has numerous challenges but is not dire, at least in the short-term. Although FDI is running at a much slower rate than last year and domestic consumption, and private investment have been growing at ever slower rates since 2005, the economy continues to be buoyed by strong export performance and tourism revenue so that the current account is in surplus, official reserves are over US\$60 billion (about five months

BANGKOK 00006156 002.2 OF 005

worth of imports and three times short term external debt) core inflation is below 2 percent and slowing, and official unemployment is low. GDP is expected to grow 4-5 percent for 2006 with similar growth anticipated for next year. Since the coup, the baht has remained unchanged in value against the US\$ and the stock exchange index has fallen only marginally (down 1.9 percent through Oct 4 from the September 18 close) with foreigners net buyers during the period. Pridiyathorn believes that, given the economy's current structure, factor inputs, coupled with sustainable fiscal and monetary policy (and assuming the country's principle export markets continue to perform at current levels), Thailand can achieve 4-5 percent GDP growth. In other words, this 4-5 percent growth rate is Thailand's "natural" GDP growth rate.

"Sufficiency Economy" - Aiming Low

15. (C) Pridyathorn and Surayud have both said that their goal is not to maximize economic growth, but to aim for "economic self-sufficiency." Buttressing the view of many here who see the new Thai leaders as imbued with royalist principles, the principle of economic self-sufficiency is derived from the statements of the currently reigning King Bhumibol. The King has stressed that "what is important for us is to have a decent standard of living and sufficient food to eat. . . . Self-sufficiency . . . means having a moderate and reasonable standard of living (and) knowing what is enough. . . and no greed." Pridiyathorn interprets this principle through the eyes of a central banker and comes up with a policy prescription for the "economy to grow within the limitations of existing resources...Economic growth must not exceed existing savings, which would cause problems." This reflects Pridyathorn's consistent criticism of Thaksin's "populist" economic policies, especially making credit widely available to rural Thais. The Governor argues that he is not against extending credit per se, but that the farmers "can not manage

their debt;" borrowing primarily to satisfy their demand for consumer products such as cell phones, televisions and vehicles. (Comment: Household debt in Thailand did increase during the Thaksin regime, from about Bt60, 000 per family to Bt110, 000. However, this remains among the lowest household debt/GDP per capita ratios in Asia and loan performance has been generally quite good. End Comment.) As central bank governor, Pridyathorn has over the past two years acted on his concerns by using BoT regulatory authority and lobbying parliament to place rate caps on credit card debt and personal loans, in an effort to reduce incentives for debt providers to provide their products to small borrowers.

Why Pridyathorn Is How He Is

16. (C) Pridyathorn's outlook is informed by his background as a member of Thailand's elite, his generally conservative political views and royal connections, and by the 1997 financial crisis. As the economic behavior of most Americans who lived through the 1930s Great Depression was forever changed by the experience, so many Thais, especially well-off ones, had their confidence (and, in many cases, family wealth) shattered by the rapidity and depth of the 1997 crisis. This was exacerbated by the sense that while Thais were largely responsible for creating the problem, it was foreign banks who lit the final fuse to the crisis and then largely failed to help ameliorate the problem. Pridyathorn has told us, in emotional tones, that foreign (particularly U.S.) banks overlent in the 1990s and then, in Thailand's hour of need, not only failed to work with their Thai customers to get through the crisis but actually called loans in early and simply stopped lending. When Thailand offered domestic banks for sale to foreign institutions as part of the plan to rescue the financial system, Pridyathorn pointedly notes that "no U.S. bank was interested." In spite of this experience, Pridiyathorn is not hostile to U.S. and other foreign bankers; on the contrary, U.S. bankers here generally enjoy a good relationship with Pridiyathorn. We would describe his attitude toward foreign banks and capital as wary: Pridyathorn has vowed never again to allow

BANGKOK 00006156 003.2 OF 005

Thailand's finances to be in the hands of non-Thais. To ensure this end, he espouses the idea of Thailand growing only in so far as domestic savings can finance the growth (Pridiyathorn seems to calculate that growth rate as 4-5 percent annual GDP growth). Similarly, he argues that Thai farmers should increase their capital assets only as fast as their cash flow allows, with debt kept to a minimum.

17. (C) Pridyathorn is generally described as an economic nationalist. This does not mean that he does not welcome foreign investment - as an economist, he knows that his country is highly dependent on exports, especially the exports of multinationals with operations in Thailand. However, he believes that foreign investors are temporary guests who could change locations without a second thought; therefore, sectors of special sensitivity or that would effect the ability of the RTG to implement economic policy should remain in Thai hands. We don't know precisely which industrial sectors he would include in this analysis, but we do know that the banking system would be among them. How long should this sector be protected? Pridiyathorn probably would argue, at least until there is a sufficiently deep and liquid public capital market (not overly dependent on foreign capital) that can be relied on to provide long-term finance to Thai business.

Crime and Punishment vs. Foreign Investment

18. (C) We will soon have the opportunity to see how economic nationalism vs. practicality plays out as the investigation of the Shin Corp sale to Singapore Government-controlled Temasek continues. In the final days of the Thaksin regime,

the battle over the use of "nominee" companies to get around Thailand's restrictions on foreign ownership of companies in certain industries had the Ministry of Commerce investigating sixteen foreign-controlled companies to determine if they, like Temasek, had used nominee structures. (Comment: Anti-Thaksin forces claimed this was an effort by Thaksin allies to demonstrate that there were wider risks in trying to take apart the Shin/Temasek transaction. Given the literally thousands of companies which operate through nominees, a wholesale finding that such structures are a violation of Thai law would have major economic repercussions, impacting foreign investment here. End Comment) It is not yet clear what the new regime will do with investigations of nominee structures beyond Shin. We have been told that on September 29, Pridyathorn told some Thai money managers that, so far as he was concerned, companies that were in violation of Thai ownership laws should be required to restructure and come into compliance. On the other hand, a close aide of the Governor assured us that Pridyathorn has already devised a way to deal with this problem in a way that would not unduly affect foreign investors.

Politics and the Economy

¶9. (C) As noted in previous Embassy reporting, much of the political battle over the past year can be viewed as a struggle of competing visions -- between the traditional Bangkok elite (of which Pridyathorn is a prime example) and the nouveau riche represented by Thaksin. The elite did not mind more Thais becoming wealthy, but Thaksin's cornering of political power without paying proper attention to elite views and concerns and especially attempting to build a power base among rural Thais using economic policies that, critics charge, amounted to vote buying. The new government's economic policies in the rural areas will require an especially deft hand. Notwithstanding vote buying charges,

¶10. (C) Thaksin's economic policies boosted rural incomes by 40 percent over the course of his regime. Already, the new leaders have promised to continue Thaksin's popular "30 baht" healthcare scheme. But will they instruct the state-owned Bank of Agriculture and Government Savings Bank to tighten credit standards? Will they change the many crop subsidy

BANGKOK 00006156 004.2 OF 005

programs that, although plagued with charges of corruption, provided a higher and guaranteed income for many farmers? And with commodity prices softening, especially rubber (which tends to move in correlation with oil prices), will the technocrats comprising this government cut prices paid to the farmers? Will rural Thailand begin to yearn for the "good old days" under Thaksin? The risk of alienating rural Thais (farmers make up 50 percent of the Thai work force) is high, especially if the world commodity cycle turns down. Amid all these uncertainties, what is clear is that the economic challenge of unwinding rural "Thaksinomics" without provoking a rural reaction will be one of the most difficult issues faced by Pridyathorn and his team.

¶11. (C) Coup supporters have repeatedly noted that under the 1991-1992 military-appointed government of Anand Panayarchun, significant legislation was passed which helped progress economic liberalization. This included reforming VAT, creating the Thai Securities and Exchange Commission, and promoting the ASEAN Free Trade Area. History may repeat itself: many expect Pridyathorn, who told us he plans to retire after his one-year stint with the military-appointed government, to lead the way towards promulgating long-delayed and much-needed legislation including improved copyright protection, rationalizing bank deposit insurance, and better labor laws. Embassy Bangkok is working with the local AmCham to identify legislation of interest to the US business community for promotion to the new Thai economic team.

¶12. (C) Of course, at this early stage it remains to be seen if the anticipated legislative activism will materialize. We are fairly certain, however, that some economic issues, notably privatization of state-owned enterprises and initiation of additional bilateral free trade negotiations, are unlikely to go forward (although the Thai-Japan FTA, which is only awaiting signature, may proceed). These issues have been closely identified with the Thaksin government and are not very popular among the Thai public, so the new leaders probably will not pursue them.

¶13. (C) Comment: Pridyathorn and his mooted economic team (reftel A) are widely respected for their probity and technical skills. But Thaksin was seen as bringing Thailand out of its post 1997 funk and restoring rapid growth, which included programs to better distribute that growth throughout Thai society. While Pridyathorn and Surayud have said that their goal is to better distribute Thailand's GDP, how they will do that while attacking Thaksin's populist policies is unclear, especially in view of Pridiyathorn's calculation of Thailand's "natural" growth rate. Pridiyathorn's number -- 4-5 percent annual GDP growth -- strikes us as disappointingly low. That growth rate puts Thailand well below Korea's and Taiwan's growth rates when they were at similar stage of development (Korea grew more than 9 percent during this stage and Taiwan more than 6 percent), and generally lower than its keenest current competitors in international trade and FDI. If Pridiyathorn is right, Thailand has been demoted from "Asian tiger" to the slow track in economic development (with obvious and negative implications for prospects for improving Thais' living standards). But perhaps this is the point: At the height of the 1997 economic crisis, King Bhumipol said, "I have repeatedly said that striving to become a 'tiger' is not our main concern. . . . What is important is to maintain a self-sufficient economy." But this policy has its limits, and we don't see any risk of Thailand turning severely inward or becoming hostile to international trade and investment. The King has conceded that total self-sufficiency is neither possible nor desirable since trying to achieve it "would be going back to the Stone Age." As a compromise, the King says, "perhaps we can substitute the current market economy with a self-sufficient economy, if not entirely or by half, then at least one-fourth."

¶14. (C) If Thailand fails to start attracting increased private investment, both domestic and foreign, its export growth will inevitably begin to slow. That development inevitably will have negative implications for the current

BANGKOK 00006156 005.2 OF 005

account, the currency, and the quality of banks' loan portfolios. Many place hope on the new government's pledge to quickly get out its 2007 budget and to begin investing in infrastructure by the first quarter of 2007, but this may be insufficient to provide much impetus to growth, especially if the agricultural sector starts hurting. The new economic team will have to balance its own priorities with the need to avoid alienating sectors that benefited most under those of Thaksin. Much will depend on their success in getting this balance right.

ARVIZU